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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001995

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NEA FOR FRONT OFFICE; NEA/IPA FOR  
WILLIAMS/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/WATERS;  
TREASURY FOR SZUBIN/NUGENT/GRANT/HARRIS/HIRSON

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TAGS: [ECON](#) [EFIN](#) [KFTN](#) [PGOV](#) [EAID](#) [KWBG](#) [IS](#)  
SUBJECT: PALESTINIAN MONETARY AUTHORITY GOVERNOR OUTLINES  
BANKING SECTOR IMPROVEMENTS/NEEDS

REF: JERUSALEM 1486

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Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

11. (C) Summary: Banks continue to operate normally in Gaza, without any direct contact with Hamas, according to Palestine Monetary Authority (PMA) Governor George Abed. Two Gaza-based Palestinian banks will complete the transfer of their headquarters to the West Bank by the end of September 12007. Israeli banks continue to provide check-clearing services to banks in the West Bank and Gaza. Abed is confident that new PA anti-money laundering (AML) legislation will give him the tools to target terrorism financing. Abed welcomes USG and other donor assistance in strengthening the PMA and establishing a financial intelligence unit (FIU). End summary.

12. (C) In a September 11 meeting, PMA Governor Abed told a Treasury Department delegation led by Deputy Assistant Secretary Daniel Glaser that banks continue to operate

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normally in the West Bank and Gaza. Abed said that two Gaza-based banks, the Bank of Palestine and the Palestine Islamic Bank (PIB), will complete the transfer of their headquarters to the West Bank by the end of the month. (Note: Abed had requested that the banks take this action along with other countermeasures after the Hamas takeover of Gaza (ref A). End note.) Abed expressed a lack of confidence in banking supervision in Gaza, hence the PMA's insistence on limiting the authority of bank branches located there. Abed noted that the PMA has also instructed all banks in Gaza to limit the need for cash transfers from Israel. He said that, if necessary, the PMA will close any banks that threaten the PA's banking system. Abed suggested that the PIB may be more susceptible to Hamas pressure than other banks.

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Status of Check-Clearing  
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13. (C) Abed said that the Bank of Israel recently asked for a three-month extension to ensure that Israeli correspondent banks continue to provide check-clearing services to Palestinian banks. Abed stated that in a recent meeting with Central Bank of Israel (CBI) Governor Fischer he proposed that the PMA and the CBI work together to clear checks and

settle accounts on behalf of their respective banks. Abed said the GOI is considering the proposal.

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AML Legislation  
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¶4. (C) Abed advised that new AML legislation will soon be enacted by presidential decree. He noted the AML law is based on an International Monetary Fund (IMF) draft. Abed confirmed that the law lacked explicit reference to terrorism financing, commenting that the PA "didn't want to deal with the definition of terrorism," as it would "blow a storm in our faces," and imperil the law as a whole. However, Abed continued, the law has been "strengthened" by adding certain terrorist related acts, such as kidnapping and attacks against civilians, to the list of offenses. The law will also empower a Palestinian FIU to intercept and freeze suspect banking transactions.

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USG Assistance  
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¶5. (C) Abed stated that foreign technical assistance would be needed in developing the Palestinian FIU, known as the Financial Follow-Up Unit, adding that the IMF is already involved, and USAID will soon be providing support through a separate program. Treasury delegation members noted recent Treasury involvement with USAID in creating a Jordanian FIU. Abed said he would contact the IMF and ask that it coordinate with Treasury personnel in providing technical assistance to the PMA on FIU development. As had Prime Minister Fayyad earlier that same day (septel), Abed also expressed strong interest in Treasury's offer to coordinate with the U.S. Immigration and Customs Enforcement (ICE) to provide assistance in developing PA capacity to interdict trade-based money laundering.

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State of the Banking Sector  
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¶6. (C) Abed described the Palestinian banking sector as healthy with a "solid capital base." He said that banks held USD 520 million cash and USD 6.2 billion in total assets. The banking system is in good shape to enhance investment. He noted, however, that the loan to deposit ratio (USD 4.5 billion-to-1.8 billion) has declined as Palestinians wait for a more favorable investment climate. He opined that significant progress is needed on access and movement to lift the Palestinian economy.

¶7. (C) Deputy Assistant Secretary Glaser cleared this message.  
WALLES